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Japan Country Report

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RICE

Research Institute of Construction and Economy

Address Frontier-Onarimon Building, 3-25-33
Nishi-shimbashi, Minato-ku,
Tokyo 105-0003, Japan
TEL +81-3-3433-5011
FAX +81-3-3433-5239
URL https://www.rice.or.jp/
E-mail acc.J-secretariat@rice.or.jp

Sugamiya Masaki, General Executive Director
Gouji Takuma, Researcher

Japan Country Report

I. Overview

In the late 1980s and early 1990s, Japan experienced a bubble economy with rapid increase of real estate prices and other effects. When the bubble collapsed, the Japanese economy entered 30 year period of stagnation known as the “Lost Decades”, when companies reduced their capital investment and the economy fell into long-term deflation. As in other countries, the economy began stagnated after 2020 caused by COVID-19 pandemic, but is now improving due to the recovery of economic activity and the increase of foreign visitors after COVID-19 was downgraded to a Class 5 disease (the same as the influenza etc.) in May 2023. While the US and European countries aggressively raised interest rates in the process of post-pandemic economic normalization, Japan maintained a negative interest rate longer than these countries. The widening gap between interest rates in Japan and the US caused rapid yen decline against the dollar, which has had a significant impact on the Japanese economy.

Japanese construction investment peaked at 84.0 trillion yen in 1992, when it was in the middle of the bubble economy. It had been on downward trend for few decades since then, due to two great earthquakes and the global financial crisis. Although construction investment bottomed out at 41.9 trillion yen in 2011, it turned out upward trend due to the strong demand mainly from reconstruction projects after the Great East Japan Earthquake in 2011, the Building National Resilience and the increase of the private investment caused by Olympic and Paralympic Games Tokyo 2020. In the last few years, while the demand related to the construction of new semiconductor plants (especially in rural areas) has increased, construction costs have continued to rise due to labor shortages and price increase of imported materials caused by the weak yen, forcing stakeholders to revise construction plans and period in some projects.

The following is the current situation of the Japanese construction industry.

(1) In FY2023, there were 479,400 construction companies in Japan. This is approximately 33,800 less than FY2010 (513,200 companies), and it has been increasing slightly over the last five years.
(2) The number of construction workers peaked at 4.96 million in 1997, but it has been declined after that due to the decline of national population and construction investment ;it was 3.42 million in 2023. Especially, the number of skilled workers has declined significantly, causing concern that the industry will face serious labor shortages in the future.

(3) Construction costs were rising slowly before the COVID-19 pandemic, but have increased rapidly in the last three years due to the weak yen and price increase worldwide.

(4) Although construction workers earn a lot of money, they have to work long hours and do not always get two days off a week. However, Recently, such lengthy working hours are being corrected through "work style reform" initiative promoted by the Japanese government.

(5) The amount of construction contracts that Japanese construction companies received overseas exceeded 2 trillion yen for two years in a row (FY2022 and FY2023). Most of these orders are received in Asia, North America, and Europe.

II. Macroeconomy

(1) Economic outlook

In FY2023, despite the recovery of economic activity, the yen remained weak against the dollar and the euro, caused by the gap between interest rates in the respective countries. Although this brought positive impacts to the Japanese economy, a record high for the Nikkei Stock Average and increasing the number of foreign visitors to Japan. It also had a negative impact on people's daily lives such as the price increase of imported goods.

In Japan, although workers' wages had hardly risen over 30 years, they increased an average of 3.58% in 2023 and 5.10% in 2024, across all industries of all sizes.[1] This marked the first time in 33 years that the rate of wage increase exceeded 5%. However, since prices have increased at a rate much higher than wages, real wage growth rates have been negative for 25 months in a row until April 2024, making it difficult for Japanese citizens to feel that their salaries has actually been increased. Going forward, real wage growth rates are expected to turn positive as price hikes settle down, and personal consumption is expected to recover.

The Bank of Japan maintained a negative interest rate although other central banks raised theirs after the COVID-19 pandemic but decided to end its negative interest rate policy at the Monetary Policy Meeting on March 19, 2024. Further interest rate rises are expected during FY2024, and the impact of higher interest rates on businesses and individuals must be closely monitored.

[1] Retrieved from the data of the Japanese Trade Union Confederation.

(2) Major Economic Indicators

Figure 1 shows major economic indicators.

Figure 1: Major Economic Indicators

	2019	2020	2021	2022	2023
GDP and Components					
GDP at real prices (trillions of yen)	550.1	528.6	544.7	553.9	559.2
GDP at current market prices	556.8	538.8	554.8	568.7	597.3
Real GDP growth (%)	▲0.8	▲3.9	3.0	1.7	1.0
Agriculture, Forestry, and Fishery	4.3	▲3.7	6.2	10.9	-
Mining	▲5.3	▲4.5	▲5.9	▲13.3	-
Manufacturing	▲1.8	▲5.7	9.9	▲1.0	-
Services	▲6.2	▲35.4	▲18.5	26.6	-
Construction	▲0.9	0.0	▲1.5	▲6.2	-
Demographic Indicators					
Population(thousand)	126,167	126,146	125,502	124,947	124,352
Population growth rate (%)	▲0.2	▲0.0	▲0.5	▲0.4	▲0.5
Total labor force(thousand)	69,120	69,020	69,070	69,020	69,250
Labor force growth rate (%)	0.9	▲0.1	0.1	▲0.1	0.3
Unemployment rate (%)	2.4	2.8	2.8	2.6	2.6
Inflation rate (%)	0.5	0.0	▲0.2	2.5	3.2
Financial Indicators					
Interbank interest rate (%)	▲0.05	▲0.03	▲0.02	▲0.03	▲0.03
Short term interest rate (%)	0.59	0.47	0.43	0.42	0.43
Long term interest rate (%)	0.72	0.77	0.74	0.78	0.87
Exchange rate against US$	109.0	106.8	109.8	131.4	140.5

Sources: "Construction Investment Outlook Based on Construction and Economy Model (August 2024)", RICE; "National Accounts of Japan (SNA)," Cabinet Office; "Population Estimates," "Labour Force Survey," and "Consumer Price Index," Ministry of Internal Affairs and Communications; BOJ Time-Series Data Search website, Bank of Japan

Notes: 1. The "Services" component of GDP is the growth rate of the "lodging and food and beverage services industry".
2. Population as of October 1st each year.
3. Total labor force and unemployment rates are annual averages.
4. Interbank interest rates, short-term interest rates, and long-term interest rates are all annual averages.
5. Exchange rate against the US$ is the annual average calculated from the monthly average as of daily rate at 5 p.m. in the Tokyo market.

III. Construction Industry Overview

(1) Construction Investment

In FY2024, construction investment is expected to increase by 0.6% from the previous year to 72.3 trillion yen.

In the government sector, the "Three-Year Emergency Plan for Building National Resilience" was implemented from FY2018 to FY2020, and the "Five-Year Acceleration Plan for Building National Resilience" has been implemented from FY2021 to FY2025, as disasters such as earthquakes and typhoon were intensified. Additionally, the Nishi Kyushu Shinkansen (bound for Nagasaki) began its operation in 2022, and other plans are underway to build new Shinkansen lines in Hokkaido and Hokuriku as well.

In the private sector, the non-residential sector saw strong investment for the Olympic and Paralympic Games Tokyo 2020, but was affected by COVID-19 thereafter. Currently, the new construction projects of semiconductor plants in Hokkaido and Kyushu have attracted a lot of attention. In the residential sector, the number of new housing starts is on downward trend due to the population decline. The mid-2000s saw approximately 1.2 million starts a year, but it has hovered around 800,000 in the past several years. Housing demand has been dampened by the rapid rise of construction costs and concern that a higher policy interest rate will lead to higher mortgage rates.

Figure 2: Transition of Construction Investment (nominal)

(Unit: 100 million yen)

Type of Investment	2019	2020	2021	2022	2023 (forecast)	2024 (forecast)
(Local Currency at Current Price)						
Private Residential	163,120	156,780	167,500	169,200	168,900	166,300
Private Non-Residential (including Civil Work)	170,465	174,622	181,600	186,800	183,100	189,400
Private Repair & Maintenance	64,893	81,689	88,600	89,400	107,400	105,300
Public (Residential & Non-Residential)	224,802	251,357	240,300	242,500	258,800	261,700
Total	623,280	664,448	678,000	687,900	718,200	722,700

Sources: Through FY2022, "Construction investment outlook (FY2023)", Ministry of Land, Infrastructure, Transport and Tourism; for FY2023~2024, "Construction Investment Outlook Based on Construction and Economy Model (August 2024)", RICE

(2) Number of Construction Companies

Figure 3 shows the number of licensed construction business operators, which was 479,400 in FY2023. Although this shows a decline of approximately 33,800 companies (including self-employed) from FY2010, but it increased by approximately 5,000 companies in FY2022. It is estimated that the number of companies decreased as construction investment hit a 30-year low in FY2011; In the last decade, it has been on upward trend as construction investment has recovered.

Looking at the number of licensed construction business operators by level of capital, 60% of them are corporations with stated capital of 3 to 19.99million yen. While the number of companies with stated capital of 100 million yen or more has remained at the same level over the past decade, the number of self-employed has been decreasing.

Figure 3: Transition of Number of Licensed Construction Business Operators

(thousand companies)

Fiscal year			2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total (Self-employed + Corporations)		Number of companies	**513.2**	**498.8**	**483.6**	**469.9**	**470.6**	**472.9**	**467.6**	**465.5**	**464.9**	**468.3**	**472.5**	**474.0**	**474.4**	**479.4**
		Rate of change	—	-2.8%	-3.0%	-2.8%	0.2%	0.5%	-1.1%	-0.5%	-0.1%	0.7%	0.9%	0.3%	0.1%	1.1%
Self-employed		Number of companies	107.9	102.4	97.0	91.8	91.2	89.9	85.3	81.9	78.5	77.2	75.8	73.5	70.0	67.8
		Percentage	21.0%	20.5%	20.1%	19.5%	19.4%	19.0%	18.2%	17.6%	16.9%	16.5%	16.0%	15.5%	14.8%	14.1%
Corporations (by amount of stated capital)	0–1.99 million yen	Number of companies	4.6	5.7	6.7	7.8	9.0	10.4	12.1	14.1	16.5	18.3	20.3	23.0	25.5	30.0
		Percentage	0.9%	1.1%	1.4%	1.7%	1.9%	2.2%	2.6%	3.0%	3.6%	3.9%	4.3%	4.9%	5.4%	6.3%
	2–2.99 million yen	Number of companies	1.1	1.4	1.7	1.9	2.2	2.5	3.0	3.5	4.0	4.3	4.8	5.3	5.7	6.5
		Percentage	0.2%	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%	0.7%	0.9%	0.9%	1.0%	1.1%	1.2%	1.4%
	3–4.99 million yen	Number of companies	123.1	119.6	115.4	111.6	110.6	110.2	108.1	106.8	105.6	105.5	105.6	104.9	104.1	103.2
		Percentage	24.0%	24.0%	23.9%	23.8%	23.5%	23.3%	23.1%	22.9%	22.7%	22.5%	22.4%	22.1%	21.9%	21.5%
	5–9.99 million yen	Number of companies	66.7	66.7	66.5	66.6	68.4	71.1	73.3	75.9	79.0	81.5	84.2	86.6	89.5	93.8
		Percentage	13.0%	13.4%	13.7%	14.2%	14.5%	15.0%	15.7%	16.3%	17.0%	17.4%	17.8%	18.3%	18.9%	19.6%
	10–19.99 million yen	Number of companies	129.0	123.6	118.4	113.5	112.7	111.8	108.8	106.1	103.9	103.4	102.9	101.3	99.5	97.1
		Percentage	25.1%	24.8%	24.5%	24.2%	23.9%	23.6%	23.3%	22.8%	22.4%	22.1%	21.8%	21.4%	21.0%	20.2%
	20–49.99 million yen	Number of companies	63.6	62.3	61.0	59.7	59.8	60.1	60.0	60.1	60.3	60.8	61.4	61.8	62.4	63.2
		Percentage	12.4%	12.5%	12.6%	12.7%	12.7%	12.7%	12.8%	12.9%	13.0%	13.0%	13.0%	13.0%	13.1%	13.2%
	50–99.99 million yen	Number of companies	11.3	11.3	11.2	11.2	11.3	11.4	11.5	11.6	11.7	11.8	12.0	12.1	12.2	12.4
		Percentage	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%
	100–299.99 million yen	Number of companies	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.9	3.0	3.0
		Percentage	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
	300–999.99 million yen	Number of companies	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.2	1.2
		Percentage	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
	1–9.99 billion yen	Number of companies	1.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
		Percentage	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
	10 billion yen+	Number of companies	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
		Percentage	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Created by RICE based on the data retrieved from Ministry of Land, Infrastructure, Transport and Tourism "Results of survey of licensed construction business operators"

(3) Number of Construction Workers

Figure 4 shows transition of the number of construction workers. It was 3.42 million in 2023 including 380,000 engineers and 3.04 million skilled workers.[2] Compared to the peak in 1997, the number of engineers decreased by 7%, but the number of skilled workers decreased by 33%, indicating a significant decline of the latter. The decrease in the number of workers is thought to be caused by the fact that the amount of construction investment had been on downward trend until around 2010; Besides since the population of Japan has entered a decline phase and is expected to continue to decrease in the future, it is unlikely that the number of construction workers start increasing.

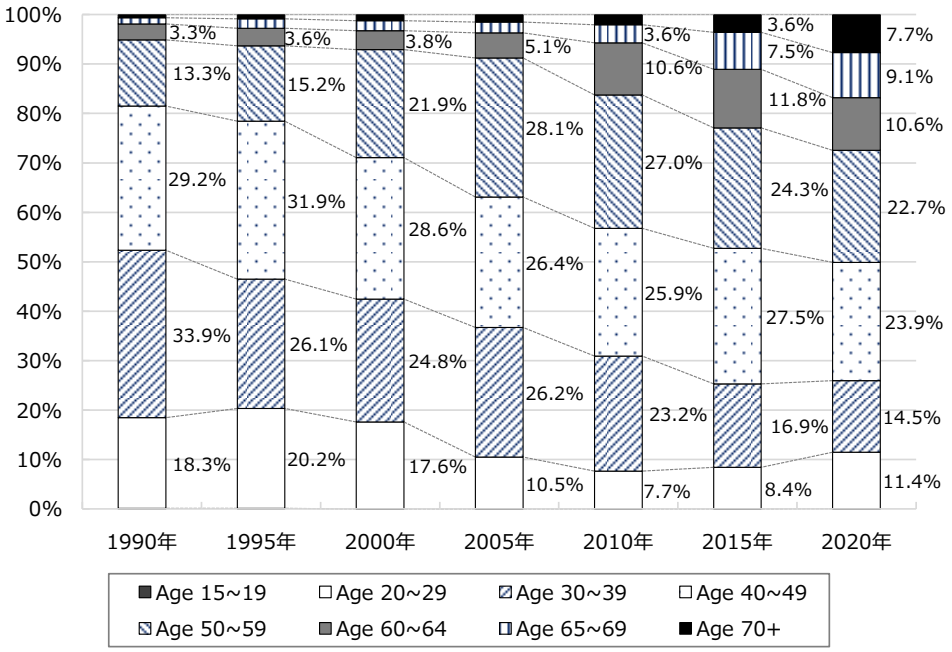
Figure 4: Transition of the Number of Construction Workers

Source: Created by RICE based on the data retrieved from Ministry of Internal Affairs and Communications "Labour Force Survey,"

Figures 5 and 6 show the percentage of each age group among the total number of construction workers. The figures show that, for both engineers and skilled workers, the percentage of workers under age 39 has decreased over last decades, while the percentage of workers aged 60 and over has increased. Japan's population is aging much faster than other countries, and according to the "2021 Annual Report on the Aging Society" published by the Cabinet Office, 28.8% of Japan's population was aged 65 and over as of 2020; The percentage of elderly people in Japan will certainly increase in the future, and the construction industry is no exception. Since skilled workers in the construction industry have to work at high places or carry heavy objects, which could be grueling for elderly people, it will be necessary to recruit young workers more.

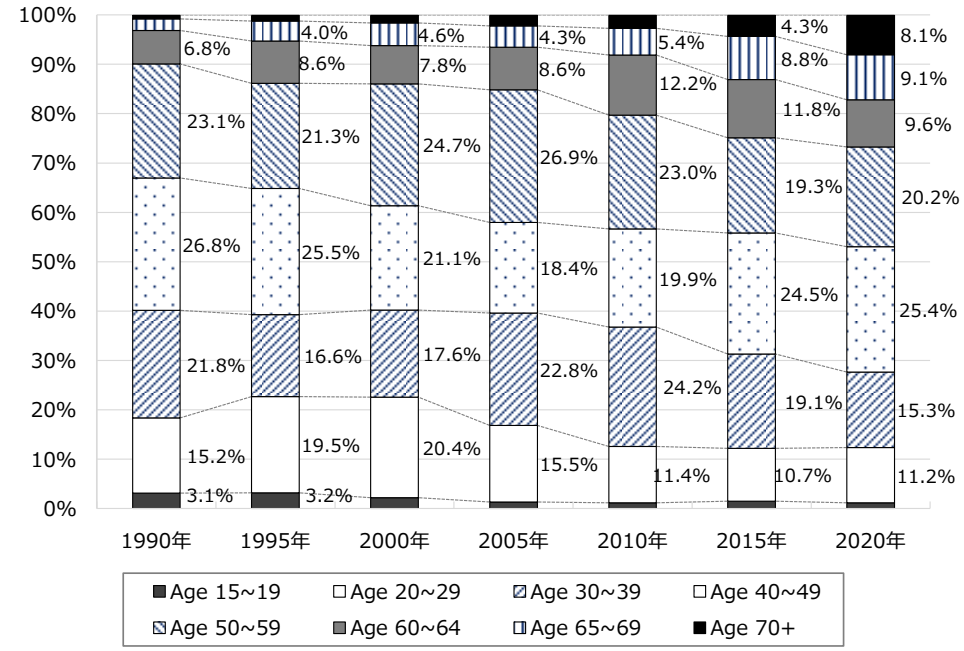
[2] "People employed in the construction industry" includes administrative workers, clerical workers, and others in addition to engineers and skilled workers, all of whom totaled 4.83 million as of 2023.

Figure 5: the Percentage of Engineers by Age Group



Source: Created by RICE based on the data retrieved from Ministry of Internal Affairs and Communications "Population Census"

Figure 6: the Percentage of Skilled Workers by Age Group



Source: Created by RICE based on the data retrieved from Ministry of Internal Affairs and Communications "Population Census"

(4) Productivity

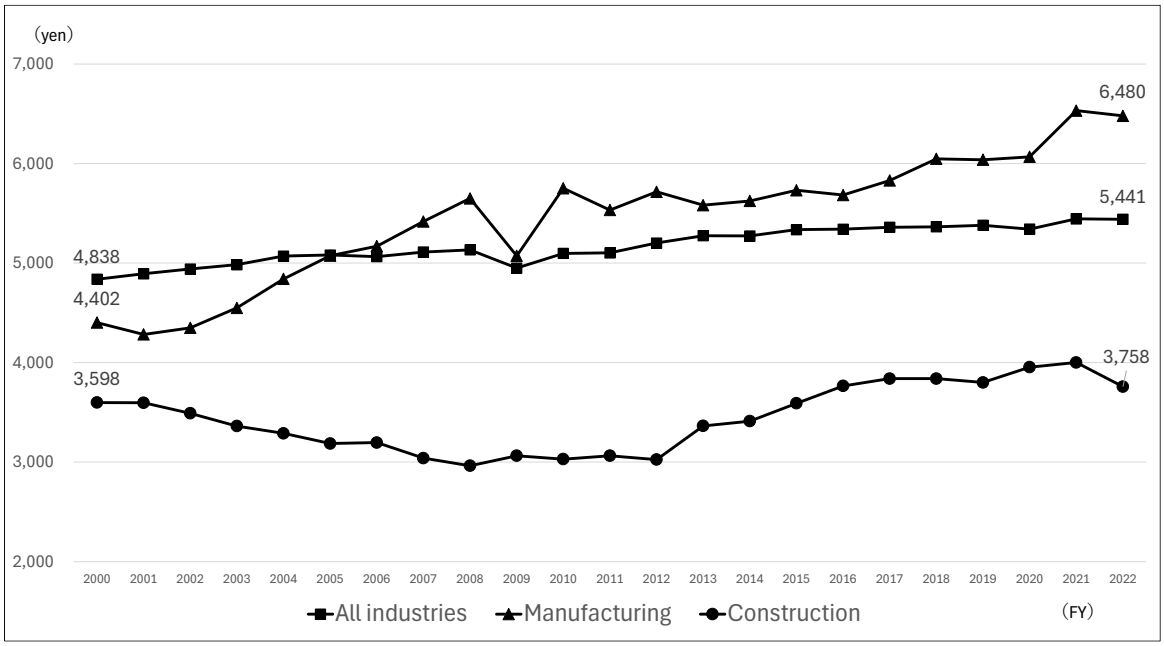
Figure 7 shows the comparison between the real output per hour per employee in three categories: all industries, manufacturing, and construction. As of FY2000, the figure for the construction industry was 3,598 yen, which is approximately 800 yen less than the manufacturing industry. However, the gap has gradually widened thereafter; as of FY2022, the gap was approximately 2,700 yen (3,758 yen for construction, 6,480 yen for manufacturing). Over the past 20 years, the manufacturing industry has successfully increased productivity, while the construction industry has not changed.

There are several possible reasons why productivity in the construction industry is lower than that of other industries, and it is considered that main reasons are the following:

1. The difficulty in the standardization of production process because it is a made-to-order industry.

2. Some operations outside are affected by the weather, which requires readjustment of work process. Japan has four distinct seasons causing rainy season, snowing and the record-breaking heat in a year, which disrupts outwork.

Figure 7: Real Output Per Hour Per Employee



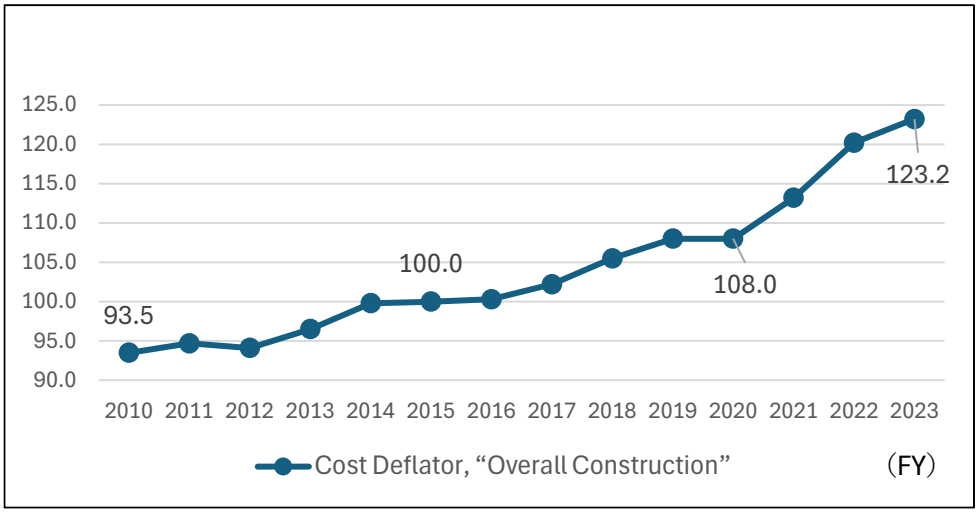
Source: Created by RICE based on the data retrieved from Cabinet Office "National Accounts of Japan (SNA)"
Note: Basis of estimations: Real output = Real GDP ÷ (Number of employees x Working hours)

(5) Construction Costs

Figure 8 shows the transition of the Construction Cost Deflator. The Deflator indexes construction costs for each year based on FY2015(=100).

Neither wages nor prices have risen in Japan for a long time, but construction costs started increasing rapidly since around FY2021. The index was 108 in FY2020 and rose 15 points to 123.2 in FY2023. It took more than a decade for the index to increase 15 points from FY2010 (93.5) to FY2020, which means the recent price increases have been quite drastic.

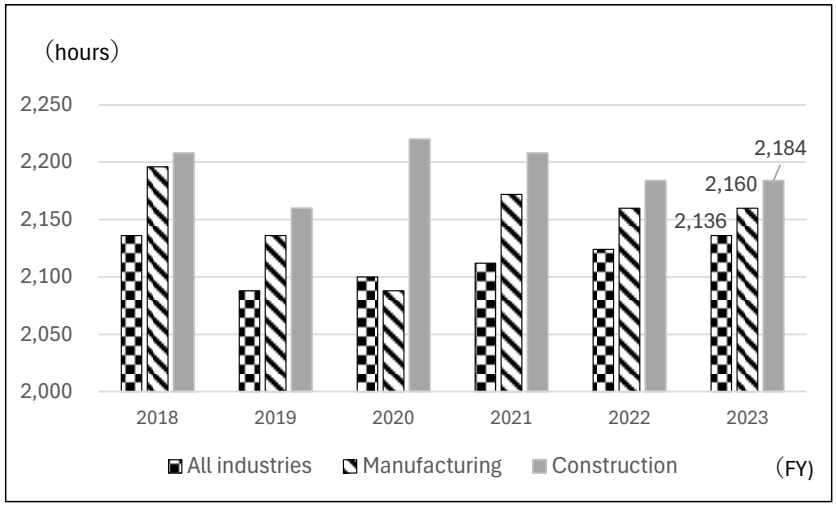
Figure 8: Transition of the Construction Cost Deflator



Source: Created by RICE based on the data retrieved from the Ministry of Land, Infrastructure, Transport and Tourism "the Construction Cost Deflator"

Figure 9 shows total working hours per year by industry. Total working hours in the construction industry tends to be longer than in other industries; it was 48 hours longer than all industries and 24 hours longer than the manufacturing industry in FY2023. However, the promotion of "work style reforms" initiative in the construction industry shrink the gap, and it is expected that the regulation of upper limit on overtime work enforced in April 2024 will close the gap further more.

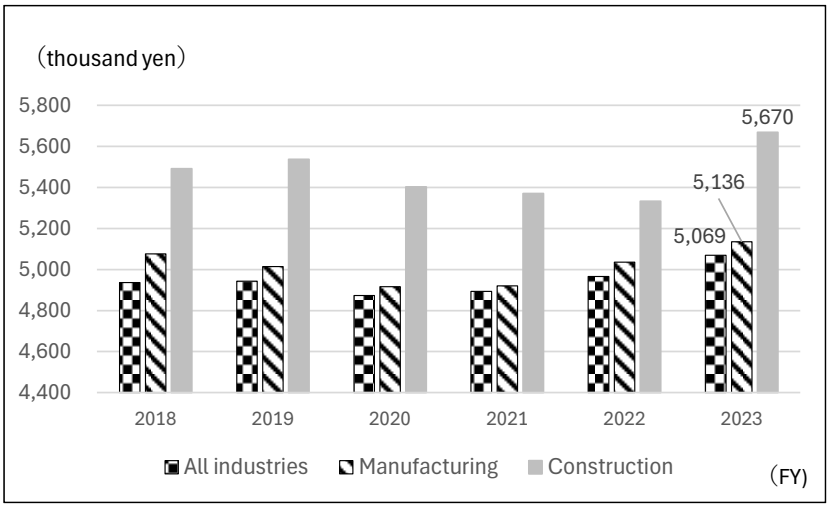
Figure 9: Transition of Total Working Hours Per Year by Industry



Source: Created by RICE based on the data retrieved from Ministry of Health, Labour and Welfare "Basic Survey on Wage Structure"
Note: Total working hours = (Prescribed working hours + Actual overtime working hours) x 12 months

Figure 10 shows the transition of annual salaries by industry. Annual salaries in the construction industry is higher than other industries by 500,000 to 600,000 yen, with 5.67 million yen in 2023. The figure of all industries is 5.07 million yen and that of manufacturing industry is 5.14 million yen, respectively. This indicates that the construction workers in Japan work longer and earn more money than other industries

Figure 10: Transition of Annual Salaries by Industry

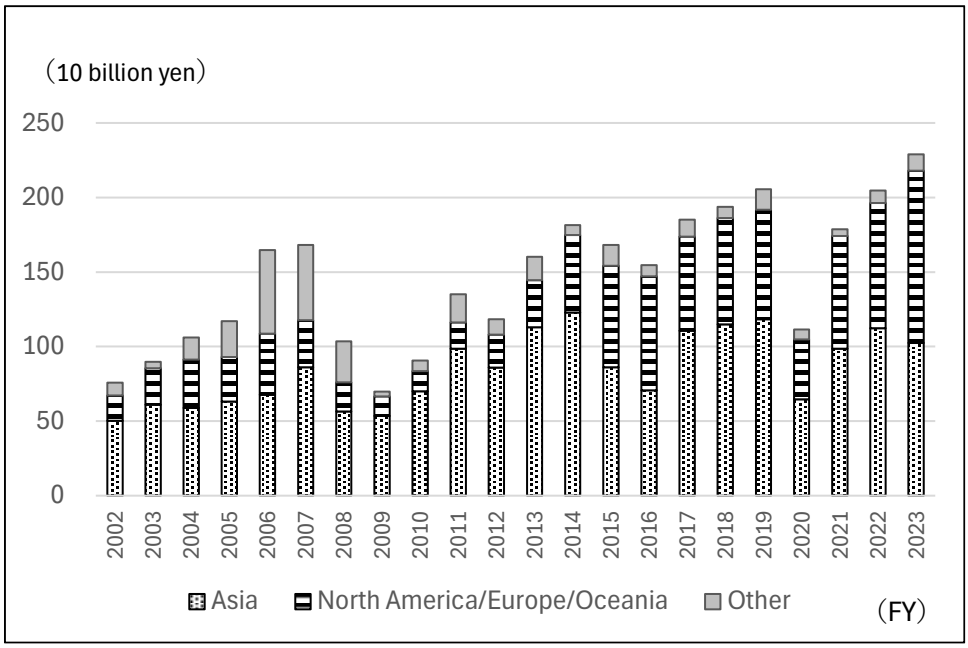


Source: Created by RICE based on the data retrieved from Ministry of Health, Labour and Welfare "Basic Survey on Wage Structure"
Note: Annual salary = Monthly contract cash earnings x 12 months + Annual bonuses and other special earnings

(6) International Trade in the Construction Market

Figure 11 shows transition in overseas construction contracts by region. Japanese construction companies' overseas construction contracts have hovered around 1 trillion yen for the past few decades. The amount has turned out upward trend since 2011, when the Great East Japan Earthquake occurred, and it exceeded 2 trillion yen for the first time in FY2019. Although it was affected by the COVID-19 pandemic in FY2020, the market recovered in FY2021, and the figure again exceeded 2 trillion yen for two years in a row (FY2022 and FY2023). Asia accounts for more than half of the total. While the "Other" category[3] was in second place for few years in the mid-2000s, that rank has been occupied by North America/Europe/Oceania in the last decade. In FY2023, North America/Europe/Oceania exceeded Asia for the first time.

Figure 11: Construction Contracts by Region



Source: Created by RICE based on the data retrieved from Overseas Construction Association of Japan, Inc. "Overseas Construction Contracts"
Note: Includes construction contracts with local subsidiaries

[3] The Middle East accounts for most of the "Other" category in FY2006 and 2007.